

Although it faced many challenges during 2003, the Group still managed to achieve satisfactory results, including an increase in turnover of 20%, as well as an increase in net profits of 38%.

The first half was a specially difficult time for the global economy. This created severe competition for the Group, in addition to pressure on selling prices that affected our profit margins, and substantial increases in the costs of raw materials. The outbreak of Severe Acute Respiratory Syndrome (SARS) was another blow that affected the economies of Mainland China, Hong Kong, and some countries in Southeast Asia, and it led to the suspension of many business activities.

We responded to these first half challenges by continuously monitoring the market, implementing cost-control measures and improving our management skills. We also received considerable cooperation from our employees at all levels. As a result, the Group still managed to record a 31% increase in profit during the first six months.

Economic conditions improved considerably during the second half. As the threat of SARS receded, many delayed orders were resumed, and our sales and turnover both increased as a result. Even so, intense competition prevailed in the market throughout the year. To counteract this, we focused on our core business activities, and we aimed for continuous improvement in both the quality of our products and our customer service.

To this end, we introduced a Total Quality Management (TQM) scheme to align our services more closely with our customers' needs. We also made further progress in implementing our ERP system, to enable the Group's companies to exchange data and information in real-time.

We recruited extra technical staff to strengthen and elevate our research and development capability; and we established a special sales team to explore new business opportunities, to increase our market share and diversify our product range. During the year under review, we successfully introduced 13 new product lines.

The Group acquired the 8.4% interest in Shenzhen Pinefield Chemical Enterprises Co., Ltd. ("Pinefield") previously held by our PRC partner, making it a wholly owned subsidiary of the Group. Pinefield acquired new machinery, technology and technical know how that enabled it to increase its production capacity by 20%. We also established a new factory in Guangzhou, mainly to manufacture products for sale within China.

We also received numerous accolades for the excellence of our products and services. Among them were a Certificate of Merit in the Hong Kong Management Association's Quality Awards and a Certificate of Encouragement in the China Quality Management Awards organised by the China Quality Management Association. We successfully upgraded our existing certification from ISO 9001:1994 to ISO 9001:2000, and we gained ISO 14001 certification for the first time.

All these strong efforts by our management and frontline workers have positioned the company well to take advantage of the continuing economic recovery that we expect to see during the coming months.

Even so, strong competition is still expected within the industry. We will address the challenges it poses by further consolidating our production base. We will continuously enhance the quality of our products, our customer service and our technical support. We will identify and explore new business opportunities, and satisfy the needs of a broader customer base. Also, we will make our prices more appropriate and take further steps to control our costs.

To enable us to provide better service and faster deliveries, we are now seeking a suitable location for another factory, as well as an office on the Mainland. We have acquired a piece of land next to our existing Pinefield factory, which we will use for future expansion. All these measures indicate our Group's confidence in the future prospects for our business in the PRC.

A key factor in our success during the past difficult year has been the commitment and dedication of all our people. While we acknowledge their contributions with the deepest gratitude, we will continue to invest in them by providing all-round training and development opportunities.

On behalf of the Board, I would also like to express our sincere thanks to our customers, suppliers and shareholders, for their loyal support. Moreover, I would like to thank my fellow Directors for their valuable contributions during the past year.

Finally, I wish to reaffirm our Group's devotion to our corporate philosophy of "prompt and reliable service". This will continue to guide all our efforts, and we believe it will contribute to our further success in the future.

YUEN SHU WAH

Managing Director

Hong Kong, 15th April, 2004